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From: William T Fujioka
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WASHINGTON, D.C. UPDATE

ANALYSIS OF PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2009 BUDGET

This report contains an analysis of the potential County impacts of the President's Proposed Federal Fiscal Year (FFY) 2009 Budget, based on the Administration's budget information which has been released to date. The President's Proposed FFY 2009 Budget would fund most Federal programs through which the County receives funding at or near their FFY 2008 funding levels. If implemented, however, his proposed budget would result in a major loss of Federal revenue to the County, most of which would result from changes in Medicaid regulations that were proposed last year.

Estimated County Impact

The estimated total combined full-year revenue loss to the County from the President's budget proposals is $305.9 million, as indicated in Attachment I, which is a table with the estimated County impact by proposal. Attachment II is a summary of the proposals affecting the County. Nearly 80 percent ($240 million) of the total revenue loss would result from two Medicaid regulatory changes proposed last year by the Centers for Medicare and Medicaid Services (CMS). A final rule to limit Medicaid payments to government providers to the cost of providing medical care to Medicaid recipients would result in an estimated annual Medicaid revenue loss of $200 million to the County while a proposed rule to make Graduate Medical Education (GME) costs ineligible for Medicaid reimbursement could result in an annual revenue loss of $40 million. CMS is prohibited from implementing these Medicaid regulations until May 25, 2008 under County-supported language included in H.R. 2206, a FFY 2007 Supplemental Appropriations Bill (P.L. 110- 28).

The County Department of Health Services' hospitals also would lose an estimated $70.6 million in revenue over the next five years from proposals to reduce Medicare payments to providers with a $6.2 million loss in FFY 2009, growing to $20 million by FFY 2013. All of the other major FFY 2009 budget reduction proposals affecting the County were proposed last year, including proposals to eliminate the Community Services Block Grant (CSBG), State Criminal Alien Assistance Program (SCAAP), and other existing state and local law enforcement programs, and to significantly reduce Community Development Block Grant, Workforce Investment Act, Social Services Block Grant, and State Homeland Security Grant funding. They also all were rejected by Congress last year.

Advocacy Efforts

The County's Washington, D.C. advocates will continue to work with our Congressional Delegation, other state and local governments, and interest groups to prevent the implementation of new regulations which would reduce Medicaid payments for government providers, Graduate Medical Education costs, outpatient services, rehabilitative services, targeted case management, and other services. We also will work to oppose the other budget proposals that would reduce funding to the County.

The proposed Medicaid regulatory changes pose the greatest risk to the County because the Bush Administration can implement them unless Congress enacts legislation to block their implementation and overrides any Presidential veto. It is unlikely that the other proposed budget cuts will be enacted. Since President Bush took office, the annual appropriations process never has been completed before December, which is more than two months after the start of each Federal fiscal year. It is expected that the FFY 2009 Budget will not be finalized before the November 2008 elections.

We will continue to keep you advised.

WTF:GK
MAL:MT:hg

Attachments

c: All Department Heads
Legislative Strategist

ESTIMATED FULL-YEAR REVENUE LOSS TO LOS ANGELES COUNTY FROM PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2009 BUDGET

Programs	Revenue Loss (in millions)
HEALTH	
Medicaid Government Provider Payment Limit Regulation	$200.0
Medicaid Graduate Medical Education Regulation	40.0
Medicaid Targeted Case Management Services Regulation	3.0
Medicaid Outpatient Services Regulation[1]	--
Medicaid Rehabilitative Services Regulation[1]	--
Medicare Indirect Medical Education (IME) Payment Adjustment[2]	1.4
Medicare Disproportionate Share Hospital (DSH) Payments[2]	2.3
Medicare Hospital Inpatient Payment Update[2]	0.4
Other Medicare Provider Payment Reductions[2]	1.6
Public Health Preparedness Grant[3]	4.5
Hospital Preparedness Grant[3]	1.7
LAW ENFORCEMENT AND HOMELAND SECURITY	
State Criminal Alien Assistance Program[3]	15.1
State Homeland Security Grant Program[3]	15.0
Southwest Border Prosecutor Program[3]	2.1
Justice Assistance Grant[3]	0.8
Juvenile Accountability Block Grant[3]	0.7
OTHER PROGRAMS	
Community Development Block Grant	5.5
Community Services Block Grant[3]	6.5
Workforce Investment Act[3]	4.3
Social Services Block Grant[4]	--
Total	$305.9

1 Impact cannot be estimated because the proposed regulatory language is vague and subject to varying interpretations.

2 The estimated annual Medicare revenue loss would grow after FFY 2009. The five-year losses would be: Medicare IME ($22.2 million); Medicare DSH ($18.3 million); Medicare Hospital Inpatient ($15.4 million), and all other provider payment reductions ($14.7 million)

3 The estimated FFY 2009 revenue loss assumes that the County would have received the same percentage share of total funding as in the most recent fiscal year in which program funds were allocated.

4 Impact cannot be estimated because Social Services Block Grant funds are blended with other Federal and State program funds and can be used to fund a wide range of social services, which can vary from year to year.

SUMMARY OF PROPOSED FEDERAL BUDGET IMPACTS

Medicaid

The President's Proposed FFY 2009 Budget assumes that all of the Medicaid regulatory changes proposed last year by the Centers for Medicare and Medicaid Services (CMS) would take effect by the start of FFY 2009. If implemented, these regulations would result in a major loss of Medicaid revenue to the County. Most notably, a final rule, which limits Medicaid payments to government providers to the cost of providing medical care to Medicaid recipients, alone would result in an estimated annual loss of $200 million in Medicaid revenue to the County. A proposed rule to make costs associated with Graduate Medical Education (GME) ineligible for Medicaid reimbursement could result in an annual revenue loss of $40 million to the County. The CMS is prohibited from implementing these Medicaid regulations until May 25, 2008 under County-supported language included in H.R. 2206, a FFY 2007 Supplemental Appropriations Bill (P.L. 110- 28).

The County also would lose Medicaid revenue if other pending regulations, which would narrow the definition of hospital outpatient services, targeted case management (TCM) services, and rehabilitative services that are reimbursable by Medicaid, are implemented. The interim final TCM rule, which took effect on March 3, 2008, could preclude the County from continuing to receive Medicaid funding for case management services provided by the County's Probation Department and Public Guardian -- a potential loss of more than $3.0 million a year. The fiscal impacts on the County of the proposed hospital outpatient and rehabilitative services regulations cannot be estimated with any degree of certainty because much of the proposed regulatory language is vague and subject to varying interpretations.

Medicare

The President's Proposed FFY 2009 Budget would reduce the growth of Medicare spending by roughly $182 billion over five years, mainly through reductions in Medicare payments to providers. The County's Department of Health Services (DHS) estimates that the Medicare payment reduction proposals would result in a total combined Medicare revenue loss over five years of roughly $70.6 million with a $6.2 million loss in FFY 2009, increasing to $20 million by FFY 2013. The following three Medicare proposals together would account for nearly 80 percent of the total revenue loss to the County:

- **Indirect Medical Education Adjustment:** The current indirect medical education (IME) add-on payment adjustment of 5.5 percent for teaching hospitals would be reduced to 2.2 percent over a three-year transition period ($1.4 million in the first year and a total of $22.2 million over five years);

- **Medicare Disproportionate Share Hospital (DSH) Payments:** Medicare DSH payments would be reduced by a total of 30 percent over two years ($2.3 million in the first year and a total of $18.3 million over five years); and

- **Hospital Inpatient Payment Update:** Payment rates would be frozen in FFY 2009 through FFY 2011 with the market basket increase limited to 0.65 percent in subsequent years ($0.9 million in the first year and a total of $15.4 million over five years).

Under current law, the County's DHS would receive an estimated $92.3 million in total Medicare revenue, including $15.4 million in Medicare DSH payments and $10.1 million in IME payments. Its total Medicare revenue is relatively small because the number of Medicare patients served by DHS is small relative to the number of its Medicaid and uninsured patients.

Public Health and Hospital Preparedness Grants

Similar to recent years, the President is proposing significant reductions in funding for Public Health Emergency Preparedness (PHEP) and Hospital Preparedness Grants to state and local governments. These grants assist public health departments and hospitals in preparing for bioterrorist attacks and other major health emergencies. The Administration is proposing to reduce PHEP funding to approximately $609 million in FFY 2009, down from $746 million in FFY 2008 and $767 million in FFY 2009. PHEP funds appropriated for FFY 2008 have yet to be allocated. Assuming that the County would receive the same percentage share of total PHEP funding as in FFY 2007, the County's allocation would drop from $25.4 million in FFY 2007 to $24.7 million in FFY 2008 and $20.2 million in FFY 2009.

Hospital Preparedness Grants would be funded at $362 million in FFY 2009, down from $423 million in FFY 2008 and $474 million in FFY 2007. Assuming that the County receives the same percentage share of total funding as in FFY 2007, the County's allocation would drop from $13.1 million in FFY 2007 to $11.7 million in FFY 2008 and $10 million in FFY 2009.

State and Local Law Enforcement Programs

The President proposes to terminate all existing state and local law enforcement programs, including the State Criminal Alien Assistance Program (SCAAP), Byrne Justice Assistance Grant (JAG), Southwest Border Prosecutor Program, DNA Initiative, and Community-Oriented Policing Services (COPS) programs, which are funded at a combined total of $1.5 billion in FFY 2008. These programs would be replaced by two competitive grant programs, which would be funded at a combined total of $400 million, and $4 million in community policing training and technical assistance. The President also proposes to terminate nearly $384 million in existing juvenile justice programs, including the Juvenile Accountability Block Grant (JABG), Juvenile Justice Mentoring, and various delinquency prevention programs with a new $185 million child safety and juvenile justice competitive grant. Last year, Congress rejected similar Administration proposals to replace existing state and local law enforcement and juvenile justice programs with new competitive grant programs funded at far lower levels.

The proposed law enforcement program elimination that would most adversely affect on the County is the elimination of SCAAP, which reimburses state and local undocumented criminal alien incarceration costs. In FFY 2007, the County received a SCAAP payment of $15.1 million when SCAAP was funded at $400 million. The Federal government has not yet awarded any FFY 2008 funding under any of its state and local law enforcement programs, including SCAAP which is funded at $410 million in FFY 2008. Based on the County's share of past funding, the elimination of the Southwest Border Prosecutor Program, which reimburses prosecution and pre-trial detention costs for federally initiated criminal cases, would result in an annual County revenue loss of roughly $2.1 million while the elimination of JABG, which funds juvenile justice services, would result in an annual loss of more than $700,000. Because Congress reduced JAG formula grant funding from $520 million in FFY 2007 to only $166 million in FFY 2008, the County's JAG funding will drop from nearly $2.6 million in FFY 2007 to roughly $827,000 in FFY 2008, assuming that the County's percentage share of total funding will be the same as in FFY 2007.

The other existing law enforcement grant programs which are proposed for elimination currently are allocated on a competitive grant rather than formula grant basis that assures that the County would receive funding each year. For such competitive grants, the main impacts of the President's Proposed Budget is to greatly reduce the total number of competitive grant programs while, at the same time, reducing total available funding.

State Homeland Security Grant Program

The President is proposing to reduce State Homeland Security Grant Program (SHSGP) from $890 million in FFY 2008 to $200 million in FFY 2009. The fiscal impact of this reduction on the County cannot be estimated with any certainty, in part, because FFY 2008 SHSGP allocations have not yet been made, pursuant to changes in the allocation methodology required by H.R. 1, the bill which was enacted last year to implement 9/11 Commission recommendations. In FFY 2007, the County received an SHSGP allocation of nearly $11.5 million from the $525 million in total SHSGP funding. Assuming that the County's percentage share of total funding will be same as in FFY 2007, the County's SHSGP allocation would be roughly $19.4 million in FFY 2008 and $4.4 million in FFY 2009. SHSGP funding was increased by $365 million in FFY 2008 because the Law Enforcement Terrorism Prevention Program, which was funded at $375 million in FFY 2007, was eliminated as a separate program.

Other Major Funding Reductions

The President is proposing major funding reductions or the elimination of the following programs of importance to the County:

- Community Development Block Grant (CDBG) funding would be reduced from $3.59 billion in FFY 2008 to $2.93 billion in FFY 2009. The Community Development Commission estimates that its CDBG allotment would drop from $29.6 million in FFY 2008 to just over $24.1 million in FFY 2009.

- Similar to previous years, the President is proposing to eliminate the Community Services Block Grant (CSBG), which was funded at $654 million in FFY 2008. Its elimination would result in an estimated $ 6.7 million annual revenue loss to the County.

- Social Services Block Grant (SSBG) funding would be reduced from $1.7 billion in FFY 2008 to $1.2 billion in FFY 2009, and the program would be eliminated in FFY 2010. The State of California receives roughly $206 million a year in annual SSBG funding, which it currently uses to fund social services, such as day care services, foster care services, services for developmentally disabled individuals, and community care licensing, prevention, compliance and enforcement activities. Also, as allowed under Federal law, the State transfers 10 percent ($373 million) of its Temporary Assistance for Needy Families Block Grant to SSBG. Because SSBG funds are blended with other Federal and State program funds and can be used to fund a wide range of social services, which can vary from year to year, it is not possible to estimate the fiscal impact on the County.

- Workforce Investment Act (WIA) Adult, Youth, Dislocated Worker, and State Employment Service programs, which received a combined total of $3.955 billion in FFY 2008 funding, would be consolidated into a new Career Advancement Accounts Grant, which would be funded at $2.826 billion in FFY 2009. The Community and Senior Services Department estimates that this proposal would result in a net loss of approximately $4.3 million to the County and a reduction in services to 822 clients.